

June 29, 2001

Thomas G. Robinson, Esq.
Amy G. Rabinowitz, Esq.
National Grid
25 Research Drive
Westborough, MA 01582-0099

Re: Standard Offer Service Fuel Adjustments, D.T.E. 00-67-A

Dear Counsel:

On December 4, 2000, the Department of Telecommunications and Energy ("Department") approved a uniform Standard Offer Service Fuel Adjustment ("SOSFA") mechanism to permit Massachusetts Electric Company and Nantucket Electric Company (together, "MECo" or "Company") to recover properly supported fuel costs through a surcharge to its standard offer service rates. Standard Offer Service Fuel Adjustments, 00-66, 00-67, 00-70 (December 4, 2000) ("December 4th Letter"). This same mechanism was approved for the other electric distribution companies. While the Department directed the electric utilities to adjust their standard offer service rates on an annual basis, it also directed the utilities to report, by July 1, 2001, their standard offer service deferral balances as well as their SOSFA monthly amounts so that the Department could determine if an interim adjustment would be necessary. December 4th Letter at 15.

On May 25, 2001, MECo notified the Department of its standard offer service deferral balances and monthly SOSFA amounts. MECo proposes a mid-year increase in its SOSFA from 1.321 cents per kilowatt-hour ("KWH") to 2.551 cents per KWH for usage on and after July 1, 2001. The Company calculates its proposed SOSFA based on fuel oil and natural gas market prices over the May 2000 through April 2001 time period. Without a mid-year adjustment, MECo forecasts that its deferral balance will rise from \$84 million, as of March 31, 2001, to \$181 million as of October 1, 2001. If allowed, the Company forecasts that a mid-

year adjustment will reduce the amount of its deferred standard offer costs by almost \$50 million. The Department requested comments on the Company's proposal on or before June 14, 2001. No comments were received.

After consideration of its projected deferral balance, MECo has shown that mid-year adjustment is necessary. While we are mindful of the effect of these present increases, allowing standard offer service deferrals to rise would threaten the operating soundness of the company and risk adverse affects on customer service. The balance of risks urges steps to limit deferrals and their associated risks. Costs that are not recovered from standard offer service customers now, will be recovered, with interest, from all customers in the future. See December 4th Letter at 4-5. Accordingly, MECo may adjust its surcharge to 2.551 cents per KWH for usage on and after July 1, 2001. In addition, by December 31, 2001, MECo shall report to the Department its standard offer service deferral balances as well as its monthly SOSFAs.

By Order of the Department,

James Connelly, Chairman

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre K. Manning, Commissioner